MENTOR

EXPLORATION AND DEVELOPMENT CO., LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31ST, 1972

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

(Incorporated under the laws of the Province of Ontario)

Executive and Head Office	Suite 300, 365 Bay Street, Toronto, Ontario M5H 2V1
Directors	ARCHIE BASEN IRVING DOBBS PHILIP DRUTZ GORDON W. KIRK, P.Eng. PAUL PENNA ALBERT WASSERMAN
Officers	PAUL PENNA, *President* MIKEY DRUTZ, *Secretary-Treasurer*
Consulting Geologist	W. A. HUBACHECK, B.SC., P.ENG.
Transfer Agent and Registrar	GUARANTY TRUST COMPANY OF CANADA Toronto, Ontario
Auditors	STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL Chartered Accountants Toronto, Ontario
Solicitors	SHIBLEY, RIGHTON & MCCUTCHEON Toronto, Ontario
Shares Listed	TORONTO STOCK EXCHANGE Toronto, Canada
Annual Meeting	June 28, 1973, 11:30 (Toronto Time), The Library, Royal York Hotel, 100 Front Street West, Toronto, Ontario

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors present the audited financial statements of the Company for the year ended December 31, 1972 and also the following review of corporate activities and principal investments.

Although the Company was relatively inactive in exploration during the year, preliminary investigations were made on a total of 30 prospects and property submissions all of which were carefully reviewed and found to be of no economic interest. Evaluations of other prospects are continuing.

The principal item of interest for your Company is its portfolio of marketable securities which substantially consists of shareholdings in Agnico-Eagle Mines Limited and Goldex Mines Limited. The quoted value of the Company's portfolio of marketable securities has shown considerable appreciation during the past year, increasing from $2,056,564 at the end of 1971 to $3,430,012 at year end 1972.

At May 1, 1973 your Company held 1,025,291 shares of Agnico-Eagle Mines Limited representing approximately 7.4% of the issued and outstanding capital, and 119,100 shares of Goldex Mines Limited. At the date of the preparation of this Report, the shareholding in Agnico-Eagle Mines Limited had a quoted value in excess of $5 million.

Your Company's holding in its affiliate, Sudbury Contact Mines, Limited, is unchanged from that of last year at 1,235,582 shares.

The following review of the salient facts concerning **Agnico-Eagle Mines Limited** is pertinent to your Company's substantial investment holding:

Silver Division

Mining operations of Agnico-Eagle's silver division during 1972 were essentially concentrated at the Trout Lake Mine in South Lorrain Township, Ontario, where ore production has been stockpiled in preparation for treatment at the company's Penn Mill which is scheduled to commence seasonal operation during June, 1973.

The decision to curtail shipments of silver during 1972 and to not operate the Penn Mill during the year was based on the generally depressed silver prices which prevailed for most of that year. Apart from a small shipment of high grade ore from the Trout Lake Mine which contained close to 100,000 ounces of silver and marketed at a time when silver was priced at $2.00 per ounce, all other ore production from this main unit was stockpiled for later treatment in the Penn Mill. The estimated silver content of the presently stockpiled ore on surface together with developed and broken ore underground at the Trout Lake Mine which is scheduled for treatment during the current year, is in the order of one million ounces.

The average price realized from silver production during 1971 when the Penn Mill operated for a period of about five months was $1.32 per ounce and the average of quoted silver prices during 1972, which varied from a low of $1.40 to a high of $2.03 per ounce, was approximately $1.70. This compares with the price at the time of writing of $2.67 per ounce, an all-time high, and with six month futures quoted at above $2.80 per ounce. Operation of the Penn Mill for the 1973 season coincides with a period of very buoyant silver prices.

In addition to mining operations at the Trout Lake unit, the company is continuing its extensive underground exploration program at the nearby leased Frontier Mine and is presently preparing to embark on a similar program to explore the lower contact of the diabase sill at the contiguous properties of the Temiskaming Mine

and the company's Cobalt Lode and Christopher claims in the Cobalt Camp area which is about 20 miles north of South Lorrain Township.

Gold Division

During June, 1972, Agnico-Eagle's management announced its decision to proceed with the final phase of completing the construction of the milling plant and the preparation of the Joutel Township gold property for production at an initial rate of 1,000 tons per day with start-up scheduled for September-October of this year.

This stated decision was coincident with the sustained increase in the price of gold establishing firm levels above $60.00 per ounce during mid-1972 with subsequent advances demonstrating that an even higher base will develop, maintained by industrial demand, flight from the dollar and the apparent re-affirmation of the continuing role of gold as a monetary metal.

At the time of writing (June 5, 1973) the price of gold on the London bullion market surged ahead to an all-time high of $123.50 per ounce. It is considered significant that these high prices have been sustained notwithstanding the fact that South Africa has been marketing virtually the entire output of its gold mines during recent months (see the appended chart).

The implications of these higher gold prices in terms of the scheduled start-up of production of Agnico-Eagle's gold mine this year are of extreme economic importance. In its Annual Report for 1972, the company stated that each $10.00 per ounce increase in the price of gold will increase the estimated annual mine operating profit by approximately $900,000. This forecast was based on operating costs of $8.00 per ton of ore treated and metallurgical recoveries of 90% and assuming the mine average grade of 0.29 ounce of gold per ton.

The company also noted that the estimated annual mine operating profit based on a gold price of $75.00 per ounce will amount to $4,051,250 and at the then prevailing price around $95.00 per ounce, the annual mine operating profit will increase to $5,878,250. Projected at a recent level around $120 per ounce, the mine operating profit would be in the order of $8 million per annum. These estimates are based on the above-mentioned assumptions as to operating costs, recoveries and grade.

For certain portions of the orebody, the grade of ore to be mined in the initial years will likely be above the mine average grade.

The mine will commence production with total ore reserves, as presently defined, amounting to 3,151,657 tons of an average grade of 0.290 ounce of gold per ton after dilution. These reserves include 753,909 tons of proven and probable ore and 2,397,748 tons of possible or drill-indicated ore. The main ore zone is open for extension both laterally and to depth.

The design capacity of the mill is 1,000 tons per day. Adequate provision has been made in the design of the mill building for the addition of extra treatment equipment including the addition of a flotation circuit which could double the capacity of the cyanide unit. This, together with other modifications and additions to the mining and treatment complex could enable an increase in the treatment rate in excess of the present design capacity.

Agnico-Eagle stated that the estimate of capital required to bring the mine into production is $3,360,000 which includes $300,000 working capital. At April 30, 1973, the amount expended or committed totalled $1,386,000 with a further $1,674,000 required to complete the program to production start-up. Agnico-Eagle also stated that agreement in principal has been reached with regard to the borrowing by Agnico-Eagle of $2.5 million from a Canadian chartered bank. Definitive documentation, it said, is being prepared by the bank. This loan will provide the capital cost and working capital necessary to bring the Joutel Township gold property into production.

The Directors of your Company consider this substantial shareholding in Agnico-Eagle Mines Limited to be an excellent and valuable long-term investment. With its anticipated recovery of around one million ounces of silver from the

Silver Division and the start-up of production later this year of the Gold Division, Agnico-Eagle should generate appreciable cash flow from operations.

Financial

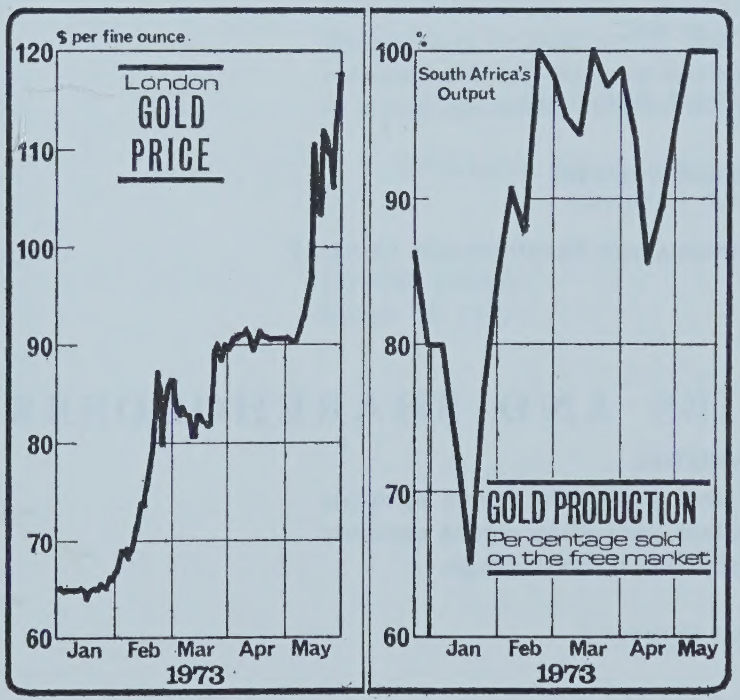
Your Company's working capital at December 31, 1972 amounted to $1,476,877 which compares with a restated $1,389,835 the previous year end. Working capital includes marketable securities valued at cost of $1,913,454 for 1972 and $1,484,765 for 1971. The quoted year end market value of these securities was $3,430,012 at December 31, 1972 and $2,056,564 at December 31, 1971.

At the present time, your Company's holdings in Agnico-Eagle Mines Limited have a quoted market value in excess of $5 million, and the shareholding in Goldex Mines Limited a quoted market value of close to $400,000.

On behalf of the Board of Directors,

"PAUL PENNA"
President

June 5, 1973



BALANCE SHEET — *as at December 31, 1972*
(with comparative figures for 1971)

ASSETS

CURRENT ASSETS

Cash ....

Marketable securities, at lower of cost and market (market value 1972 — $3,430,012; 1971 — $2,056,564

Prepaid expenses ....

INVESTMENTS

Affiliated company

— shares, at cost (market value 1972 — $494,233; 1971 — $327,429) ....

— advances ....

Other companies

— unlisted and escrowed shares, at cost or less ....

— advances ....

FIXED ASSETS, at cost

Office furniture ....

Less: Accumulated depreciation ....

Mining claims and properties ....

DEFERRED EXPLORATION EXPENDITURES (Note 1) ....

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Bank indebtedness, secured by certain securities ....

Payable to brokers, secured by certain securities ....

Accounts payable and accrued charges ....

SHAREHOLDERS' EQUITY

Capital

Authorized — 5,000,000 shares, without par value

Issued and Fully Paid — 3,455,746 shares ....

RETAINED EARNINGS ....

The accompanying notes form an integral part of these financial statements.

To be read in conjunction with the Auditors' Report to the Shareholders attached hereto dated March 30, 197

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

1972	1971
—	$ 3,500
1,913,454	1,484,765
2,510	2,510
1,915,964	1,490,775
204,919	204,919
14,500	—
13,460	13,460
112	106
232,991	218,485
3,384	3,384
2,574	2,237
810	1,147
130,058	130,058
130,868	131,205
395,148	394,401
2,674,971	$2,234,866
275,469	$ 88,000
158,901	9,315
4,717	3,625
439,087	100,940
,802,966	1,802,966
432,918	330,960
2,235,884	2,133,926
2,674,971	$2,234,866

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Mentor Exploration and Development Co., Limited as at December 31, 1972 and the statements of administrative expenses and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL
Chartered Accountants

Toronto, Ontario,
March 30, 1973.

Approved on behalf of the Board of Directors:

P. PENNA, Director.

A. BASEN, Director.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

STATEMENT OF ADMINISTRATIVE EXPENSES AND RETAINED EARNINGS

For the Year Ended December 31, 1972
(With comparative figures for 1971)

EXPENSES	1972	1971
Administration, office and accounting	$ 10,800	$ 10,800
Interest and bank charges	11,822	5,480
Legal and audit	8,000	7,459
Shareholders' information	6,611	6,164
Consulting fees, general	7,722	5,909
Transfer agent fees	1,849	4,498
Miscellaneous	2,188	4,202
Depreciation, office furniture	339	339
Directors' fees	400	1,050
	49,731	45,901
Less: Gain on sale and revaluation of marketable securities and investments	152,689	328,291
Dividends earned	—	1,200
	152,689	329,491
NET ADMINISTRATIVE REVENUE FOR THE YEAR	102,958	283,590
RETAINED EARNINGS — beginning of year	330,960	80,905
	433,918	364,495
Less: Exploration expenditures written off		
— Val d'Or Area	(1,000)	—
— Red Lake Area	—	(24,285)
Claims dropped — Red Lake Area	—	(9,250)
RETAINED EARNINGS — end of year	$ 432,918	$ 330,960

The accompanying notes form an integral part of these financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

STATEMENT OF DEFERRED EXPLORATION EXPENDITURES

For the Year Ended December 31, 1972
(With comparative figures for 1971)

	1972	1971
EXPENDITURES DURING YEAR		
Licences, fees and taxes	$ 747	$ 753
Prospecting	1,000	—
	1,747	753
DEFERRED EXPLORATION EXPENDITURES — beginning of year	394,401	417,933
	396,148	418,686
Less: Amounts written off to retained earnings		
— Val d'Or Area	1,000	—
— Red Lake Area	—	24,285
DEFERRED EXPLORATION EXPENDITURES — end of year	$ 395,148	$ 394,401

SUMMARY OF DEFERRED EXPLORATION EXPENDITURES

	1972	1971
Sycee Group	$ 292,230	$ 292,150
Hill Group	62,580	62,080
Gillies Limit	22,900	22,862
Cobalt Area	15,229	15,229
Halet Group	1,781	1,696
Chandler Group	428	384
	$ 395,148	$ 394,401

The accompanying notes form an integral part of these financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended December 31, 1972
(With comparative figures for 1971)

	1972	1971
SOURCE OF FUNDS		
Gain on sale of marketable securities	$ 152,689	$ 82,079
Net proceeds on sale of investments	—	141,212
Dividends earned	—	1,200
Repayment of advances to other companies	—	841
	152,689	225,332
APPLICATION OF FUNDS		
Administrative expenses	49,731	45,901
Less: Depreciation	339	339
	49,392	45,562
Exploration expenditures	1,747	753
Advances to other companies	14,508	7
	65,647	46,322
INCREASE IN WORKING CAPITAL	87,042	179,010
WORKING CAPITAL — beginning of year	1,389,835	1,210,825
WORKING CAPITAL — end of year	$1,476,877	$1,389,835

The accompanying notes form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1972

1. The amounts shown for deferred exploration expenditures represent costs to date less amounts written off and are not intended to reflect present or future values.
2. Certain 1971 figures have been reclassified to conform with the presentation adopted for 1972.

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